



# “Majesco Limited Q3 FY18 Earnings Conference Call”

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**MODERATOR: MS. ASHA GUPTA – CHRISTENSEN INVESTOR RELATION**

**Moderator:** Ladies and gentlemen, good day and welcome to Majesco Limited Q3 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta. Thank you and over to you.

**Asha Gupta:** Thanks Zaid. Good evening all of you and welcome for joining Q3 FY18 Results of Majesco Limited. Please note that the results are being mailed to you and you can also review it on our website at [www.majesco.com](http://www.majesco.com).

To take us through the results and answer your questions today, we have with us Mr. Ketan Mehta – Non-Executive Director of Majesco Limited and Founder and CEO of Majesco US and Mr. Farid Kazani – Managing Director of Majesco Limited. We will start the call with the brief overview of the quarter which will be given by Mr. Ketan Mehta and then it will be followed by Mr. Farid Kazani who will get into the detailed financials. We will then follow up this with the Q&A session.

I would like to remind you that everything that is said on this call that reflects any outlook for future or which can be construed as forward-looking statement, it must be viewed in conjunction with the risk and uncertainties that we face. This risks and uncertainties are included but not limited to what we mentioned in the prospectus filed with SEBI and the subsequent annual report that you can find on the website. With that said, I would like to handover the call to Mr. Ketan Mehta. Over to you, sir.

**Ketan Mehta:** Thank you, Asha. Good evening everyone and welcome to Majesco's fiscal 2018 third quarter conference call. I am quite pleased with the performance of the business during the quarter across all fronts. As you will remember, the previous quarter saw the return of growth in revenue by approximately 9% along with marginal improvement in profitability. In the current quarter ended December 31, 2017, we have seen continued improvement in financial performance over previous quarter. We have 4.1% expansion of revenue, 308 basis point improvements in EBITDA margin, the largest number of new wins and 15.8% improvement in 12-month order backlog. We have experienced growth across all the regions we operate in and we continue to see good progress in our cloud-based platform business which grew by 59.2% year-over-year. Our cloud business which currently represents 30.8% of the total revenue compared to 19.5% of the same quarter in the previous year. This shows the fundamental change in Majesco's business model towards cloud. I have talked about significant disruptions taking place in the insurance industry which is creating growth opportunities for Majesco. Let me elaborate that, the shift towards platform economy is happening across all industries. Insurance is at the early stages in the shift reflected in innovation of new business model that enable insurers to leverage broad ecosystem and technology innovation such as cloud computing, artificial intelligence, machine learning and new data sources to create greatly enhanced customer experience.

As a result of these changes insurers are focusing on speed to value inclusive of speed to implement within few months versus years. Speed to market to rapidly develop and launch new products or enter new state and speed to revenue to enable business growth with minimum capital investments or upfront cost. Majesco is at the forefront of this change. As we shared in October at our Convergence event, our platform strategy is reflected in our offering including our next-generation of core platform, our new Digital 1<sup>st</sup> Insurance platform with micro services, architecture, our growing partner ecosystem in Majesco CloudInsurer platform and our partnership is IBM offering the insurance industry platform.

During the third quarter, Majesco record 10 new customer wins represents growth in North America, Asia Pacific and European market. For North America, we had 6 new wins which include 3 new customers for our Majesco CloudInsurer platform. Specifically, New York state insurance fund selected Majesco billing on Majesco CloudInsurer platform. A commercial lines insurer selected Majesco P&C suite on Majesco CloudInsurer platform and a new start up carrier selected Majesco Policy for P&C and Majesco billing on the Majesco CloudInsurer platform where the carrier is looking for a quick launch of personal line products in California targeted at suburban market.

In addition, we had a data solution win in the mid-market insurer who selected Majesco's business analytics platform. In the European market, a tier 1 insurance carrier in U.K. selected Majesco policy for life and annuity and group for their group protection business and a tier 1 insurer selected Majesco data services for development of a data solution. We have a similar win for our Majesco life and annuity and group policy platform in Asia Pacific region along with another life insurer in Asia Pac who selected Majesco's distribution management solution. Our joint IBM and Majesco team continues to execute on MetLife program we announced last quarter. As we talked of digital transformation before, MetLife program is a great example where our goal is to build a digital platform which provides end-to-end digital solution where MetLife will have the ability to tailor and scale its benefits offering from core to claim to small market clients.

Our IBM partnership continues to gain momentum with a growing pipeline. Finally, and most importantly we had 3 go-live events during the last quarter including one tier 1 insurer for Majesco billing. As you can see Majesco's continued investment to enable insurance carrier transition to insurance 2.0 is gaining market momentum validating our strategy and solution. Our pipeline for the new opportunities remains strong and I am excited about our opportunities to be at the forefront of this change taking place in the insurance industry. Let me now turn the call over to Farid to discuss the financial drivers for the quarter.

**Farid Kazani:**

Thank you Ketan and good evening to all and welcome to our third quarter conference call.

I echo the points that Ketan just enumerated with respect to the excellent overall business performance during the quarter ended December 31, 2017. Let me give you more color to this with the numbers.

Let me start with the revenue numbers for the third quarter ended December 31<sup>st</sup>, 2017. We ended the quarter with an operating revenue of Rs. 207.3 crores as compared to Rs 199.1 crores in the previous quarter reflecting an increase of 4.1% in rupee terms and almost similar in dollar terms. The total revenue for the quarter was Rs 208.9 crores as compared to Rs 201.8 crores in Q2 reflecting a growth of 3.6% on a Q-on-Q basis mainly driven by growth across all regions and expansion of the Cloud base revenue.

For the 9-months period ended December 31<sup>st</sup>, 2017 the operating revenue was Rs 589.4 crores as compared to Rs 636.7 crores in the corresponding period of the previous year reflecting a drop of 7.4% Rupee term and a drop of 3.6% in constant currency. In terms of total revenue, we ended up with Rs 595.4 crores as compared to Rs 644.2 crores during the corresponding period of the previous year. While this 7.6% was lower in rupees terms as compared to the corresponding period of last year, we expect exceed the previous year's revenue on a full year basis in dollar term.

Turning to expense and profitability.

During the third quarter ended 31<sup>st</sup> December 2017, the product R&D expenditure stood at Rs 29.4 crores up by 6.1% as compared to the previous quarter and was 14.2% of the Q3 operating revenue as compared to Rs 27.7 crores which is 13.9% of the operating revenue in the previous quarter ended September 2017. The highest spends are attributed to the development requirements of the IBM related projects on our digital program. For the 9-months period ended December 31<sup>st</sup>, 2017 the product R&D expenditures was lower at by 6.4% at Rs 82.6 crores as compared to Rs 88.3 crores during the same period as compared to the corresponding period of last year.

The adjusted EBITDA which is before ESOP impact and excluding onetime exceptional item for the third quarter ended December 31<sup>st</sup> 2017 was Rs 13.3 crores which is 6.4% of the operating revenue as compared to adjusted EBITDA of Rs 6.7 crores which is 3.4% of the operating revenue in the previous quarter reflecting an improvement of 308 basis point quarter-on-quarter. The improvement in the margins aided by growth in the cloud-based revenue during the quarter. The adjusted EBITDA for the 9-months period ended 31<sup>st</sup> December 2017 was Rs 18.8 crores which is 3.2% of the operating revenue as compared to Rs 34.4 crores which is 5.4% of the operating revenue in the 9-month period of the corresponding previous year.

The net loss for the third quarter stood at Rs 12.9 crores in Q3 as compared to the net profit of Rs 10.7 crores in Q2 of this year. In the current quarter the company has made an adjustment of Rs 17.4 crores to write down the companies deferred tax asset in line with the recent changes made to the US tax codes. The net loss for the 9-month period December 31<sup>st</sup> 2017 was Rs 7.7 crores as compared to the net profit of Rs 9.3 crores in the corresponding 9-month period of the previous year ended 31<sup>st</sup> December 2016.

From a geographic standpoint North America, UK and APAC regions represented 87.7%, 4.7% and 7.5% respectively of the third quarter's operating revenue as compared to 88.9%, 4.7% and 6.4% respectively in the previous quarter ended 30th September 2017.

In terms of business split, the P&C represented 75.7%, Life and Annuity represented 23.2% and Non-Insurance was close to a percentage in the third quarter as compared to 79%, 18.2% and 2.8% respectively in the previous quarter ended 30th September 2017.

The total revenue from cloud-based customers was Rs 63.8 crores which is 30.8% of the operating revenue for the quarter ended 31<sup>st</sup> December, 2017 as compared to Rs 60.7 crores which is 30.5% of the operating revenue in the previous quarter 30<sup>th</sup> September, 2017, reflecting a growth of 5.1% on quarter-on-quarter basis and up 59.2% as compared to the Rs 40.1 crores in the corresponding quarter of the last year. Total revenue from cloud-based customers was Rs 171.9 crores which is 29.2% of the operating revenue for the 9-month period ended December 31<sup>st</sup> 2017 as compared to Rs 123.5 crores which is 19.2% of the operating revenue in the corresponding period of December last year, reflecting a growth of 39.2% on a year-on-year basis.

The total recurring revenue which is the license revenue, recurring subscription and the maintenance support was up at Rs 54 crores or 26% of the operating revenues for the quarter ended 31<sup>st</sup> December 2017 as compared to Rs 50.5 crores or 24.6% of the operating revenue for the quarter ended 31<sup>st</sup> December, 2016. The total recurring revenue was Rs 154.3 crores for the 9-months period ended 31<sup>st</sup> December, 2017, representing 26.2% of the operating revenue compared to Rs 151.3 crores representing 23.8% of the corresponding period ended 31<sup>st</sup> December, 2016.

In terms of client concentration, the top 5 client constituted 27.5% and the top 10 constituted 43.3% in the third quarter as compared to 28.6% and 43.7% respectively in the previous quarter ended 30<sup>th</sup> September, 2017. The total client count as of 31<sup>st</sup> December, 2017 was 174 client. The total number of Cloud customers stood at 35 at the end of 31<sup>st</sup> December, 2017 and we added a total of 10 new clients globally in Q3.

The 12 months order backlog stood at Rs 587.3 crores or \$91.9 million as of 31<sup>st</sup> December 2017 and in constant currency stood at Rs 598.3 crores as compared to Rs 518.4 crores which is \$79.4 million at the end of the previous quarter 2017 reflecting an increase of 13.3% Q-o-Q in Rupees terms and 15.8% in dollar term.

Quickly turning on to the balance sheet, there was an improvement in the overall net debt position by Rs 43.5 crores during the quarter as compared to the previous quarter ended 30th September. The consolidated Majesco Group had cash and cash equivalents of Rs 183.4 crores at the end of 31<sup>st</sup> December 2017 as compared to Rs 176.9 crores at the end of September 30<sup>th</sup> 2017. Whereas, the debt as at 31<sup>st</sup> December 2017 was Rs 73 crores as compared to Rs 115 crores at the end of September 30<sup>th</sup> 2017.

DSOs improved to 72 days at the end of 31<sup>st</sup> December, 2017 as compared to 79 days in the previous quarter ended September 30<sup>th</sup> 2017.

Total headcounts stood at 2,473 at the end of December 31<sup>st</sup> 2017 as compared to 2,423 at the end of September 30, 2017.

I am pleased to inform you that recently the company approved the issue and allotment of 4.4 million equity shares of face value of Rs 5 each to the qualified institutional buyers at issue price of Rs 520 per share (including premium of Rs 515 per share) aggregating to Rs 2.31 billion pursuant to the allotment of 4.4 million equity shares in the QIP. The paid-up capital share capital of the company now stands increased to Rs 14.03 crores.

This concludes our prepared remarks, I now pass it on to the operator to open the call for questions and thank you and appreciate of your continued interest in Majesco. Over to the operator.

**Moderator:** Thank you, sir. Ladies and gentlemen, we will now begin with the question-answer session. The first question is from Ankit Pandey from Quant Capital. Please go ahead.

**Ankit Pandey:** My question would first of all on margins I think you did mention if I do not catch it incorrectly that the margins expanded to a great deal because of the increase in cloud revenue. So, could you just break down the cloud revenue for me and give a little bit more color on the margin lever we have?

**Farid Kazani:** Yes, so Ankit, I did mention that the total cloud-based revenue in the quarter was Rs 63.8 crores as compared to the previous quarter of Rs 60.7 crores. So, while we had an overall revenue improvement, the revenue profile becoming more cloud oriented and with whatever efforts in terms of productivity efficiencies we were able to get 308 basis point improvement in EBITDA in this quarter as compared to the previous quarter.

**Ankit Pandey:** So no particular highlight as to how much the operating margin has improved because of cloud?

**Farid Kazani:** We do not give the cloud margins separately but as I would have mentioned earlier also that as you build more business volumes on the platform, there are the potential of getting increase margins from the cloud revenues. Secondly, we had also certain customers that were there on our private cloud where we have converted them on the public cloud on Microsoft Azure which has improved the overall margins for those customers. So, these two have impacted the margins positively in the cloud side.

**Ankit Pandey:** And if I could ask one more is that did you have any impact from IBM restructuring, there has been a global restructuring from the IBM side. Did you have any impact from that relationship perspective and secondly on the lawsuit that we have had last quarter, any P&L impact on that?

**Ketan Mehta:** So, the first question about IBM, no we have no impact on our current program, their leadership with whom we are working with in terms of the MetLife program as well as our broader

partnership is stable and the momentum as I mentioned about pipeline working with IBM is building up. So, we do not see any change of this restructuring in our relationship with IBM. In terms of lawsuit essentially it is a company element to whom we have supplied, both billing as well as the policy admin system. The billing system has been in production. They faced certain issues on the policy admin systems and while we are working with the client they decided to file a suit in the court with \$10 million amount. As an abundant caution we have completely provided all the receivables from the client as well as we have an adequate insurance coverage to provide against future cost on that particular lawsuit. However, we are working with the client in a manner we clearly have a very strong, our legal team feels we have a very strong case. So we are going to defend that case for our rights. At the same time, we are also working with the client to see if we can resolve that without getting into an extended lawsuit situation.

**Ankit Pandey:** So I take it that the impact was not materialized as far.

**Ketan Mehta:** That absolutely correct.

**Farid Kazani:** So Ankit, as Ketan did mention that whatever receivables that were outstanding with respect to this client, as an abundant caution, we have provided 100% against the receivables and up to December everything has been covered and we do not see any further impact from our receivables or operations perspective from this client. As Ketan mentioned that we have already notified the insurance carrier from any legal expenses or claims that will arise out of this particular issue. At this point of time since it is a lawsuit we cannot talk much on this. We hope to minimize the impact from the particular event.

**Ankit Pandey:** And lastly if you could elaborate a little bit on the IBM pipe line? That's it from my side, thanks a lot.

**Ketan Mehta:** IBM and Majesco teams are working together in terms of the overall insurance industry platform initiative. We are covering both property and casualty as well as life and annuity segments of the market. While the bulk of the pipeline is in North America and US, we are also seeing some global opportunities working along with IBM and especially after we announced the MetLife deal which is considered one of the most digital transformation deal by the insurance industry. We certainly have added interest in the IBM industry platform solution. So we find a good traction of the cover combined pipeline in the market.

**Moderator:** Thank you. Next question is from the line of Shyamal Dhruve from Phillip Capital. Please go ahead.

**Shyamal Dhruve:** My question is more on the debt front, like the borrowings is lower by around Rs 42 crores in this quarter. So just wanted to know whether the money – Rs 231 crores we raised through QIP, whether any part would be used in the reduction in debt or the QIP money would be for R&D funding as well as any acquisition?

- Farid Kazani:** Shyamal, this is the debt consist of two components. One is the working capital debt that is in US for our normal working operations and which would fluctuate because we have a limit of \$10 million. So, it will be based on our utilization that will keep going up or down. The second is the term loan which was with HSBC and there is a repayment of that which kicks in from this year which hopefully will be taken care from our normal operational fund. The QIP funds are definitely focused to build the inorganic part of the business. So, we will utilize the QIP funds definitely for acquisitions and if temporarily if we need to zeroing on the working capital debt we will do that so that we save the interest cost. So, the funds will be inclined to build the inorganic plan but inorganic plan takes its own time. So, the fund will be available as in the books till the time of the acquisition.
- Shyamal Dhruve:** And my next question is on this Amazon, JP Morgan announcement, though it is very early to comment on it but any initial thoughts from your side how it will change the industry or just an initial thought.
- Farid Kazani:** I do not think there will be any impact or changes on our business, we already have a good relationship with Microsoft Azure for our cloud platform and we do very limited business with Amazon for with certain clients where they require us to use that particular cloud platform. So, in terms of what Amazon is planning, at this point of time we have not specifically assessed or evaluated the impact.
- Moderator:** Thank you. Next question is from Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Sir, my question pertains to first on the tax front, these Rs 17 crores that you have written-off this quarter, so it is a one-time thing, right?
- Farid Kazani:** It is the one-time thing, so if you are aware that the base tax rate in the US has reduced from 35% to 21%. As you would be aware as we have been funding the business for product development in US, the expenses are incurred in the US and the US entity has accumulated losses against which we had created deferred tax asset. The deferred tax asset was calculated as the base earlier rate of 35%, so with the tax rate changes that got announced in December, we have taken measures to immediately write down the deferred tax asset to the extent of \$2.76 million and therefore the Rs 17.4 crores is the one-time impact in this quarter and the rest of the deferred tax asset would be definitely be utilized against the future profits going forward.
- Deepak Poddar:** So, in future we do expect our tax to be around kind of neutral kind of number, right?
- Farid Kazani:** Yes, the base tax has come down. And as you build the business it will help to build the profitability in the US. The low tax rate will benefit and then the deferred tax asset would be utilized.
- Deepak Poddar:** So, if I adjust for that we were actually are profitable at the PAT level, right?
- Farid Kazani:** Absolutely, if you take Rs 17.4 crores off definitely.



- Deepak Poddar:** And we do expect to continue that in terms of like PAT in green?
- Farid Kazani:** We do not guide on any going forward quarters but in our commentary we have been very clearly saying that we will work towards the improvement on both the topline and the bottomline and one of the clear indicators has been our improvement in our order back log which will reflect how the revenue will shape going forward and that has increased by almost 16% in this quarter.
- Deepak Poddar:** And in terms of your EBITDA margin you mentioned that it has improved because of your higher revenue from your cloud business, right? So, and I think in your traditional business and the cloud business you do expect your cloud business to grow at a much faster rate than your traditional business?
- Farid Kazani:** Yes, the number of customers had increased on cloud to 35 which will lead to higher percentage of the cloud business going forward. And as we have mentioned that as the profile of revenue shifts towards cloud potential to make higher margins going forward.
- Deepak Poddar:** So, is there any kind of levels which we are looking at in terms of even the mix and margins as well, like ...
- Farid Kazani:** No, we are not guiding to any numbers going forward. Again our commentary has been very clear that we are hoping to end the year much better with at least neutral in terms of dollar basis though rupee base there can be short fall as compared to last year. So, that is a clear indication of how we will see the business.
- Deepak Poddar:** But how do you see our revenue from cloud business kind of panning out in terms of entire scheme of thing like currently it is at about what 30% rate. So, do you see that growing to about 50%-55%-60% over next 1 year-2 years some sense on that?
- Farid Kazani:** So, again we are not guiding to any numbers and it is very difficult to conjecture any number or a timeframe. There is going to be quarter-on-quarter uplift in that percentage and the momentum of business on cloud will definitely increase. If you look as compare to last year we moved from 19.5% to 30% this year on the back of 35 customers. We are seeing good momentum on the cloud side in the US and 8 to 9 opportunity deals are on the P&C side in the US are cloud deals. And we are hoping to close more cloud deals going forward. So, there will be a steady increase in this number. I cannot determine when we will reach that 50%. It is very difficult to build that model at this point in time.
- Deepak Poddar:** And my last question pertains to your adjustment on account like what is the adjustment on which basically your EBITDA margin has improved on the adjusted basis?
- Farid Kazani:** Because we also reflect the same results in the US. In the US there is no concept of EBITDA. Most of the peers use a concept which is called adjusted EBITDA which is before the stock based compensation and we use the same terminology out here which is adjusted EBITDA which is before stock base compensation and exceptional items. So, that is to keep in line with peers who reflect the adjusted EBITDA numbers.

- Deepak Poddar:** So, your stock-based compensation this quarter was about Rs 3 crores-3.5 crores?
- Farid Kazani:** Stock based compensation would be around Rs 4 crores in this quarter.
- Moderator:** Thank you. Next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.
- Amit Chandra:** Sir, my question is regarding the property and casualty part of the business. So, in this quarter we have seen that the P&C has been flat, right and the growth is coming from L&A. So, out of the deals win that we had so all the deals win were in the L&A part or like how to read it?
- Farid Kazani:** No, so Amit, clearly the some of the past deals in P&C have been on-premise deals and on completion of projects, the revenue from those businesses have gone down. New Deal wins in P&C are largely coming on cloud. So, it takes time before the revenues on the P&C cloud deals start building up to offset the drop in on premise deals. The L&A is clearly a function of the MetLife deal that we are doing with IBM .There has been a ramp up on that part of the business which is led to increase in the overall L&A business. The L&A business also has grown in the other geographies in UK and Asia Pac as both these geographies have L&A business. So, there has been a good momentum in L&A in all the three geographies.
- Amit Chandra:** And sir on the drag that we have been seeing on the on-premise business. So, has that stabilized or we are still seeing some pressure or some clients demanding to shift from on-premise to cloud?
- Farid Kazani:** No, in this quarter, Amit actually there has been a little uplift because we had one on premise client that started the business last quarter. There are some other projects in the coming quarters will see completions. Therefore, there could be a minor aberration and a minor shift down. Clearly it is not that the on-premise business is coming down to a zero. There are one off deals on premise which will come in US and the UK and Asia Pac have on-premise business. So, it is not that the on-premise business is going to down continually. Certain projects in the US in P&C which get completed will lead to minor drops
- Ketan Mehta:** So, typically these projects may be taken up 12 months or 18 months ago and when the implementation is completed and client goes into production the implementation revenue portion comes down and then the support kicks in. So, that is the time where you see a drop in on-premise revenue on those accounts.
- Amit Chandra:** So, the real worry was that will it stabilize at around 30% or still we can see some down side, or it can eat up the growth that we are seeing from clouds. So, that was one concern?
- Farid Kazani:** So, I think that concern has been taken care of because we have grown pretty well in the last 2 quarters. So, the bulk of the drop has happened in the last year until Q1 of this year and Q2 and Q3 have seen pretty much stabilized revenue on the on-premise and the growth on the cloud which has more than offset the drop in the on-premise and we do expect the same trend to continue.

- Ketan Mehta:** So like what Farid mentioned, that we would see some of the on-premise programs winding down as a natural course when the implementation gets completed and customer gets into the production but the increase in the cloud will be more than the offset that type of reduction. But what is more important is that we are changing the portfolio of our business mix in a manner by which we have more cloud business which is essentially the high-margin business. So, I think it is a strategic direction where we are changing the business mix towards cloud which has high recurring revenue portion and higher margin business.
- Farid Kazani:** And it is more predictable, more profitable and it creates potentially better value for the overall business.
- Amit Chandra:** So, like in the 30% cloud business how much is implementation and how much as of now subscription and how much can this subscription grow?
- Farid Kazani:** Right now in the 30% which is there in this quarter, roughly around 9% odd is subscription, balance 21% is the implementation. And as customers are going into implementation, the revenue from implementation will be higher on cloud and but then that converts into subscription as they go live.
- Ketan Mehta:** Subscription revenue tends to scale up as clients put more business on the platform and we have multiple plans which we have booked in last 2 years to 3 years. So, they have real case studies or histories of some of the clients who have scaled up and put significantly more amount of business on our platform where the subscription revenue has grown up 2 to 3 times what was there compared to what was there in the first year and the third year. But there are many other cloud clients which are in the process where the first book of business is getting implemented and in the production and the second one will come after that and things like that. So, the inherently the subscription business has a potential to scale depending on how quickly the clients take more business into that platform.
- Amit Chandra:** In the last 2 quarters, have we seen any subscription revenue from the IBM deal that is happened or only we are getting implementation as of now?
- Farid Kazani:** There is a very small pre-production subscription, most of this revenue from the current IBM MetLife deal is on implementation.
- Amit Chandra:** And sir lastly on the order book, so like can you please provide some extra color as the order book is from P&C, L&A and which geographies. So, any extra color on the order book, so what is driving growth in the order book?
- Farid Kazani:** The order book in North America is driven right now both on P&C and L&A and the cloud part is building up. In the other geography which is in UK and Asia Pac, it is largely on the L&A side and it is largely on-premise. There has been one deal that has closed in this year on cloud in the UK and we are looking at one deal closure in APAC on the cloud side.

- Moderator:** Thank you. Next question is from the line of Parag Bharnd, who is an Individual Investor. Please go ahead.
- Parag Bharnde:** My first question is this quarter we have added 10 customers. Now, if I see this is probably one of the highest numbers of clients you have ever acquired. So, can you throw more color on how it came to like 10 numbers in one quarter?
- Farid Kazani:** This is obviously a record win in terms of 10 deals and we have given some commentary in the press release, 6 of them have been in the US, 2 of them in the UK and 2 of them in Asia Pac. Within the US, the 3 deals have been on cloud, 3 of them are largely on the services side. In the UK, there is a large deal on the Life side and in Asia Pac there has been one deal which is in the health side and the other on Life side.
- Parag Bharnde:** I think my question was more of like last 3-4-5 quarters you have won 2 customers, 3 customers, 4 customers like the run rate was 2-3-4 customers somewhere in that line. But suddenly this quarter it was like 10. So, I want to understand what has changed, I am sure it has not changed because it is a long-lead time, but I want to get more information on that, if you could?
- Ketan Mehta:** I think we look at it as couple of ways. One is obviously at any point of time we have multiple deals in the pipeline and if so happened that we have many closures which happened in the last quarter. But also in somewhere reflects the fact that we have a growing momentum in the business as well as acceptance of our cloud solution. But I would look at it and say this we will have to watch this as a trend and look at it for next couple of quarters to see what type of pattern emerges, but we generally find a better pipeline and better traction in the cloud part of our business.
- Farid Kazani:** And to add to Ketan, deals get closed by the end of the year from our client perspective, so to that extent deal closures are better in the December quarter. The other aspect is that we had some improvement both on the product side and on our sales effectiveness. So, in the first half we did not have many successes and these deals have coincidentally got closed in this quarter. The pipeline is looking good, so we do believe that we will see average deal closure instead of low one or two deals. And do expect the next quarter to have good deal closures.
- Parag Bharnde:** Another thing is the Life and Annuity, can you give bit more update on that part of the business because most of the commentary is generally around P&C which is good but can I have more information on L&A deals?
- Ketan Mehta:** So in Life and Annuity side, one area which we are focused on is group protection market and in UK we are a later in that part of the business group protection market with where we announced legal and general first and UNUM UK and one more Tier-1 insurer carriers selected our platforms. So, significant portion of the group protection business will get processed on our platform based on that. Now in US, the MetLife deal which we talked about which has gone with IBM is also on the group protection part of the business where we see a significant amount of interest overall in the market mainly because more and more employers are looking at more

employee funded options as well as the new innovative products which are controlled by employees as opposed to employers and that is causing fair amount of activities because the legacy platforms in the group protection market do not support employee driven and employee funded voluntary products. So, to service that many insurance carriers are investing into new technology platforms to enable them to do so because that offers them a strong growth opportunities. So, we find fair amount of traction in that part of the market. In the Asia Pacific market, we have both Life and Annuity as well as group protection platforms which is gaining traction. And we also have the solution on the health insurance side on the Asia Pacific market. So we have some wins this quarter in the Asia Pacific market where the carrier selected our policy admin platform in this area.

**Parag Bharnde:** On this L&A, how is the competitive scenario is it, is it like as competitive as P&C or it is a less competitive or more niche?

**Ketan Mehta:** I would say that it is more fragmented in terms of the overall vendor landscape. It is competitive there are multiple solutions provider, but it is more fragmented in terms of the overall vendor landscape. Also, as I mentioned there is a fair amount of activities taking place on the group market side but with an exception of that overall the deal activities on the Life and Annuity side is not as strong as what we see in P&C. But of last 2 years we have seen fair amount of deal momentum in the group protection side. So we are focused on that.

**Parag Bharnde:** And my last question is, on the UK the profitability is fairly muted in last 2 quarter, any particular reason for that?

**Farid Kazani:** One is we have seen the impact of the Pound and hopefully it will not impact further and the second was that UK revenues did fall in the first half because of a large implementation program that was completed and to that extent the corresponding cost reductions did not happen. This quarter UK has grown.

**Parag Bharnde:** Once deal which you have signed last quarter, it gets implemented it will become normal then, is that fair to assume?

**Farid Kazani:** Yes, you will see the growth in UK from this quarter with couple of deals that got signed, yes.

**Moderator:** Thank you. Next question is from the line of Jaineel Jhaveri from JNJ Holdings. Please go ahead.

**Jaineel Jhaveri:** Basically, I just wanted to know that who were the new investors that came up in the QIP because we did not see the names of the people who invested, if you could tell me that?

**Farid Kazani:** Let me come back to you because I need to be very clear in terms of disclosure, my guess is that we will disclose at the right time. It is obviously a list of marquee investors some of them who have been our existing shareholders and some of them new shareholders who are long term in nature. So, we will share that data once I get a little clarity on disclosure requirement.

- Jaineel Jhaveri:** Usually, I mean after the QIP they just send out an article saying that these are the people on BSE that way it is much easier everyone gets to know at the same time?
- Farid Kazani:** I will just get this cleared from our compliance angle and I will share that out because I know it is of interest everybody to know.
- Jaineel Jhaveri:** And another thing is that do we have any implementation partners and are we are that level where you are all now comfortable having implementation partners?
- Farid Kazani:** Yes, so we already have IBM as a strong implementation partner and the partnership with IBM is oriented towards building the business on cloud both in the P&C and the Life side. So, IBM remains our preferred partner. We also have some engagements with Deloitte, who work with us with as implementation partners and we will work with other strategic partners on implementation if certain customers require that. However, our engagements with both Deloitte and IBM have been pretty fruitful in the past.
- Jaineel Jhaveri:** I am just trying to understand that going back to one of the previous callers question like has the number of deals that you all have won for quarter, have all the deals been won by you or some of these have been won by implementation partners and that is why the number has gone up?
- Farid Kazani:** No, all these deals have been won by us.
- Jaineel Jhaveri:** And then, so usually the, how does it work it, just you win the deal and then you handed off to an implementation partner?
- Farid Kazani:** No, we do the implementation our self in all these cases.
- Jaineel Jhaveri:** So, then do we get to a level where we have an implementation partner where users win the deal and handed over to an implementation partner?
- Ketan Mehta:** So, we get, we do that in certain cases but since we primarily work with IBM and Deloitte, they most of the time take a lead in terms of overall solutions. So, generally speaking we get engaged with implementation partner at a pursuit stage and then some of the clients want one-point solutions, so they may give their whole deal to an SI partner and we act as the sub-contractor. In some cases, they split the deal and give separately to us as well as to the SI partners, so it follows any one of those pattern.
- Jaineel Jhaveri:** So, means even going forward all the deals would always be implemented by us is that how it works? Say suppose in 5 years down the line when we are a much bigger company does not usually a product company have implementation partners as they grow bigger?
- Ketan Mehta:** So, we continued to work as we said we continued to work with IBM and Deloitte as our implementation partner. What we have found is that generally speaking that works out best for Tier-1 and Tier-2 insurance carriers. So generally, we engage with them on the larger carriers and the smaller carriers we tend to do the implementation work ourselves.

**Moderator:** Thank you. Next question is from the line of Adarsh Jain from TCS. Please go ahead.

**Adarsh Jain:** I want to know the funds which we have raised through QIP what are the provisions we are thinking about, are we planning some acquisitions? And the second question is about the lawsuit which has been filed in US. Is that any specific reason which mentioned by the client the reason I wanted to know if you could tell us and the third question would be about the revenue growth forecast. What kind of revenue growth we are talking going forward in terms of percentage?

**Farid Kazani:** I think we answered the first 2 questions but for the sake of repetition the QIP fund is for acquisitions. We are evaluating few targets and depending upon how we end up in those in bids amongst multiple bidders. We do expect that we are better placed to close the acquisitions since we are in a position to fund those acquisitions. So, that was the first part of your question. Second is the lawsuit we have already informed both the exchanges in the US and India with regard to that particular case where Alamance has filed summons in the Supreme Court of New York with regard to breach of contract on the program. They are seeking a compensatory claim of \$10 million. These are summon which has not been detailed out. We believe that this case does not carry merits and we have as an abundant caution already provided for the receivables in our books and we have already taking recourse to informing the insurance carrier for any claim or legal expenses if they arise. Ketan did brief earlier that we have been working with this customer for some time where we have implemented the billing program quite successfully. There have been some issues on the Policy Administration System and we hope that we will be able to get a resolution over a period of time. As this is a legal case we cannot give any further information over this call. Third, in terms of the revenue growth you asked, we are not giving any specific guidance for revenue growth except the leading indicator in terms of the backlog which has grown 16% and that gives comfort of how you see the shape of revenues going forward. Also, the deal momentum that has happened in this quarter and hopefully we expect good momentum in this Q4. That should give some color on how we will see the revenue growth going forward. We are optimistic we will see a build up from here and hopefully we should end up the year pretty stronger.

**Moderator:** Thank you. Next question is from the line of Rochan Patnaik from Edelweiss. Please go ahead.

**Rochan Patnaik:** So, just coming back to the on-premise license sales, I think third quarter you have done very well and I think it is almost like doubled sequentially and could you highlight the reasons how that happened and do we continued to expect similar ride for the fourth quarter as well. And second question is the in terms of the professional services we seen that in the third quarter there has been a Y-o-Y decline about 15% to 16% in terms of professional services. So, can we expect the same trend to continue in the fourth quarter itself. Sir, could you throw little bit light on to that because what I am really keen to understand is that the cloud subscription revenue should continue to grow at the rate that you have projected that you performed in the last 2-3 quarters and I think if that happens and I think we see some level of comfort there. So, I just wanted little bit clarity in terms of the professional services and the on-premise license sales for the next couple of quarters. Can you throw little bit light on that and how that business is going to play?

- Farid Kazani:** So Rochan, I kind of anticipated your question and you are right as compared to the last year there has been a drop in the professional services purely because the on-premise dropped, which was dropping for quite a few quarters but if you see the professional services it was Rs 107.7 crores in this quarter as compared to Rs 103.6 crores. So, it had actually grown because we have had few on-premise businesses that have done well both in the US, UK and Asia Pac that has helped these professional services to grow. Now to kind of anticipate your question whether this that is this will grow or this will de-grow. This is linked to how we will see the implementation revenues from these customers that we have got. I think the fear that you had in terms of this falling down further like a sword is incorrect as it is not going to happen as we are seeing good traction in the APAC and the UK business with the wins that we have had. The professional services will be quite steady and will not see the drops that has happened in the past few quarters.
- Moderator:** Thank you. Next question is a follow up from the line Shyamal Dhruve from Phillip Capital. Please go ahead.
- Shyamal Dhruve:** Just a clarification on this IBM deal like during Majesco US concall you had mentioned that the IBM IP deal revenue growth momentum to continue for one more quarter before stabilizing. So, does that mean that there would not be any implementation revenue from next quarter onwards and only subscription revenue? Is this the right assumption?
- Farid Kazani:** So, this is the implementation for the small market that we are doing for the MetLife and this implementation will take another couple of quarters. So, we will see at least the implementation for the next couple of quarters. It then gets converted into a minimum subscription revenue that we will get on this platform and there will be some possible support fees that we will have with engagement with IBM. So, there will be minor aberration after implementation, but the good part is if the platform goes live pretty successfully and MetLife starts building their program rapidly, you would see the subscription revenue building on the platform.
- Moderator:** Thank you. Next question is a follow up from the line of Ankit Pandey from Quant Capital. Please go ahead.
- Ankit Pandey:** My question would be if we are sticking to our forecast that we made quarter ago that we will probably hit double digit margin or comfort level in margin in 4 to 6 quarters from now and that would be pretty much prevaricate on the growth momentum but any update to that?
- Farid Kazani:** Yes, we have seen improvement in the EBITDA margins compared to the previous quarter and that is the function of increase in revenues help and the work we have done in terms of managing our cost. While, it is difficult to predict similar expansion in margins leading to incremental EBITDA margins but if we reach closer to a \$40 million a quarter we will be see a double digit EBITDA margins. So, the faster we do it the better.
- Ankit Pandey:** And secondly look at the pipeline of course the order backlog has grown very sharp in this quarter again, couple of quarter again it was a sharp growth. So what we read for this is it more sort of stretched out now cloud being a major part of our income incremental pipeline. So are



the revenues also going to increase in a jumpy fashion or do we expect more regulated growth pattern year-upon-years from here on?

**Farid Kazani:** No, I think we have had regulated growth in last 2 quarters, the order backlog has also grown and is a good sign. I think if we have a good momentum on the deal closures in the next quarter then there is a good chance the revenue will grow pretty fine. However, with order backlog ending up with \$92 million, it gives us very good visibility of the revenues in the next 12 months.

**Moderator:** Thank you. Next question is from Shivam Gupta from CWC Advisors. Please go ahead.

**Shivam Gupta:** So the first question I had was that in terms of how these books develop on the cloud platform once the client is on boarded. So in the contracts are there any milestones which are put there thereupon successful achievement this particular quantum of book will move automatically or is it entirely at the client discretion?

**Ketan Mehta:** So typically, client would make a decision to implement the platform because they have an intension to at least start with a defined portfolio or a book of business. So generally, what we find is that once the first level of implementation gets done the first book of business gets deployed. Now the deployment sometimes is staggered because most of the time the client takes an approach of migrating the existing policies on renewal. So, they will not do the whole book of business migration at one time but as the renewal occur they keep transferring them on to the new platform. Now depending on their confidence and success of the first book of business they take on the next lines of business. So, that is completely at a client discretion. But what we find is that the client business case is predicated on the fact that how quickly they can put the book of business on this because then they also get the benefits of the new technology platform as well as the economies of scale.

**Shivam Gupta:** So, if I to summarize it correctly so the new line of business will come on board seeing the success of what is already going on to the platform and the one which is on the platform will grow as and when those policies get renewed.

**Ketan Mehta:** Correct.

**Farid Kazani:** And we have seen that in various case studies, in the first year they will do that steadily and once they see everything smoothened out they will accelerate as fast as possible because they would like to see the advantage of cost saving.

**Shivam Gupta:** The second question and the last one from my end was that, what is the, how should we look at the R&D expense run rate going forward from now because we are currently at 14.2. So is this absolute number good enough or do you think there is more spike to that level?

**Farid Kazani:** I think Shivam that is clearly linked to certain development work that we are doing related to IBM project and some work on the digital front. So I think it will be in this region between \$4.25 to \$4.75 million a quarter. But as revenues start building, this percentage of 14 what you are

seeing right now will come down. There will be some leverage that we will get over a period of time with revenue building up.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments, over to you.

**Farid Kazani:** Thank you all participants for the continued interest in Majesco and look forward to kind of hearing and talking to you in the next quarter results. Thank you.

**Moderator:** Thank you very much members of management. Ladies and gentlemen, on behalf of Majesco Limited, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.